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EXECUTIVE ENTREPRENEURS
Why Big Company Managers Are Buying Up Small Companies, See Page 98

Inc.

DIVORCE

ENTREPRENEURIAL STYLE

TO PLAN FOR IT MAY RUIN YOUR MARRIAGE

NOT TO PLAN FOR IT MAY DESTROY YOUR COMPANY

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MARCH 1986

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Cover photo: Ralph King

Cake by Montilio's Cakes and Pastry, Quincy, Mass.

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Fast-food restaurants, whether franchised or independent, may rely on customers to put their own meals together. "If you want to see a sophisticated fast-food operation, go into a 7-Eleven," says Atid Kaplan, professor of hotel and restaurant management at the University of Denver. To buy lunch at a 7-Eleven, customers pick out their food, heat it in a microwave, and pay a cashier—the only employee involved. —*Virginia Inman*

KICK THE TIRES

Car Dealers Hit The Road Once Again

THEY CALLED IT "AUTO ROW," the 10-mile stretch of Virginia Route 7 banked with gleaming chrome. Families with kids came here, young hot-rodders and retirees, all to kick the tires. But now land values outside Washington, D.C., are soaring so high that car dealers are priced off the lots. Fading away is another bit of small-business Americana.

Auto dealers around the nation are hitting the road again. Soaring land values pushed them from city to suburb in the late 1960s, then to the far suburbs in the 1970s. Now development is uprooting them again: many dealers are losing their leases or selling their land.

Where to now? Some dealers are moving still further into exurbia; some are opening joint autoparks, multidealer groups that share land and facilities. Others are putting small branch showrooms, often with computerized catalogs, into malls and other high-traffic areas. They exile the service and parts divisions to a less costly location.

Experts are sure that customers won't trade a turn behind the wheel for a seat at the computer terminal. "They gotta smell 'em, they gotta drive 'em," says John Rummel, a Dodge dealer in Bloomfield Hills, Mich. "You've still gotta have something to touch." —*N.M.*

ENGLISH AS A SECOND LANGUAGE

Or, as President Reagan might say, throw the little ones back.

"A violation of the four-ounce standard occurs if the average of the aggregate weights of the 10 smallest scallops in all the one-pint samples taken fails to meet the four-ounce standard. If a violation of the four-ounce standard is found among those undeclared scallops from a particular vessel and being treated as a separate entity for the purpose of sampling, the entire amount of scallops in possession or control will be deemed in violation. If a violation of the four-ounce standard is found among scallops possessed by a dealer/processor, only those scallops being treated as a separate entity for the purpose of sampling (i.e., the total amount of scallops, up to 10% of which has been drawn as samples) will be deemed in violation."

—From a final rule published by the U.S. Department of Commerce, effective January 1, 1986.

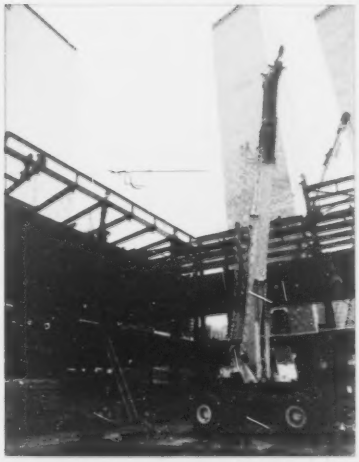
SCORECARD

By Joshua Hyatt

Building Boom: A Shaky Foundation

Are we heading for a commercial real estate crash?

Most cities already have a glut of office space, especially when you consider the amount of construction still underway. Chicago leads the nation with 40.5 million square feet of vacant space, 18.9 million of which is under construction. Dallas isn't far behind, with 39.2 million square feet of vacant offices, 21.6 million of which is just going up. "There are still a lot of people putting money into bricks and mortar," notes Gregg Witt, a vice-president of Frain Camins & Swartchild, a Chicago real estate brokerage.



JOHN DEAN

Office construction continues apace, with a 16.3% national vacancy rate.

The national vacancy rate now stands at just over 16.3%, compared with about 6% five years ago. So why are builders still frantically putting up girders? Available credit, attractive interest rates, and special tax incentives have lured plenty of investors. With tax reform threatening to floor many of these incentives, investors feel their window of opportunity is closing. "Tax reform could change everything," says Philip Braverman, chief economist at Irving Securities Inc. "That's why people are rushing to bring buildings to completion."

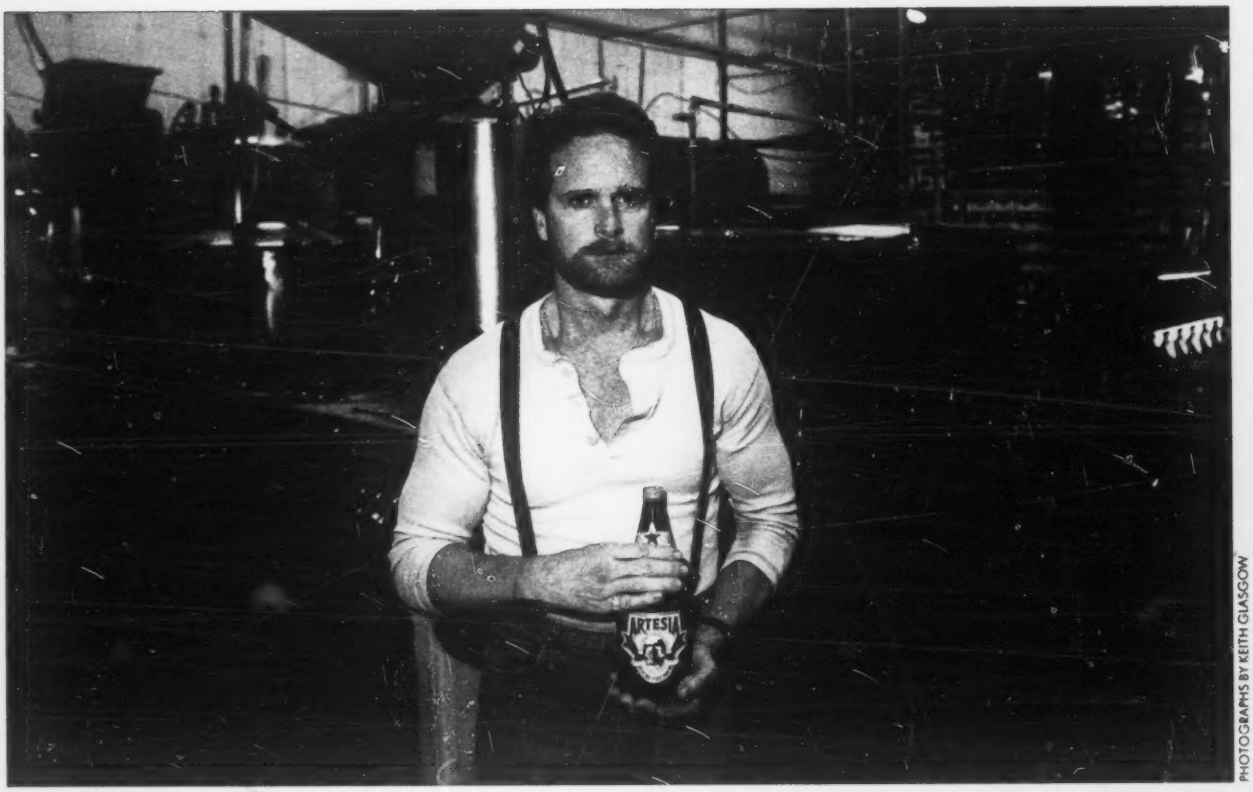
Office buildings, like battleships, take about two years to complete. When the current crop is finished in 1987, developers are going to have plenty of trouble digging up tenants—especially if a recession hits at the same time, as many economists expect. "By 1987, the commercial real estate market will be in deep trouble," Braverman predicts.

Here are the eight cities with the most vacant office space—including offices under construction—for the first half of 1985.

INSIDER (continued)

City	Total vacant square footage (in millions)	Vacancy rate
Chicago	40.5	17.3%
Dallas	39.2	23.1
Houston	38.1	26.2
Los Angeles	34.3	13.3
San Francisco	25.4	18.5
Atlanta	17.6	18.8
Denver	16.3	21.1
Boston	16.2	12.7

Source: The Office Network Inc., Houston



PHOTOGRAPHS BY KEITH GLASGOW

FOR FIVE YEARS, *Rick Scoville's Artesia Waters successfully played the Texas David to Perrier's Goliath . . .*

The Great Texas Water War

Rick Scoville started out to "kick Perrier in the derrier," but he forgot to cover his own.

BY CURTIS HARTMAN

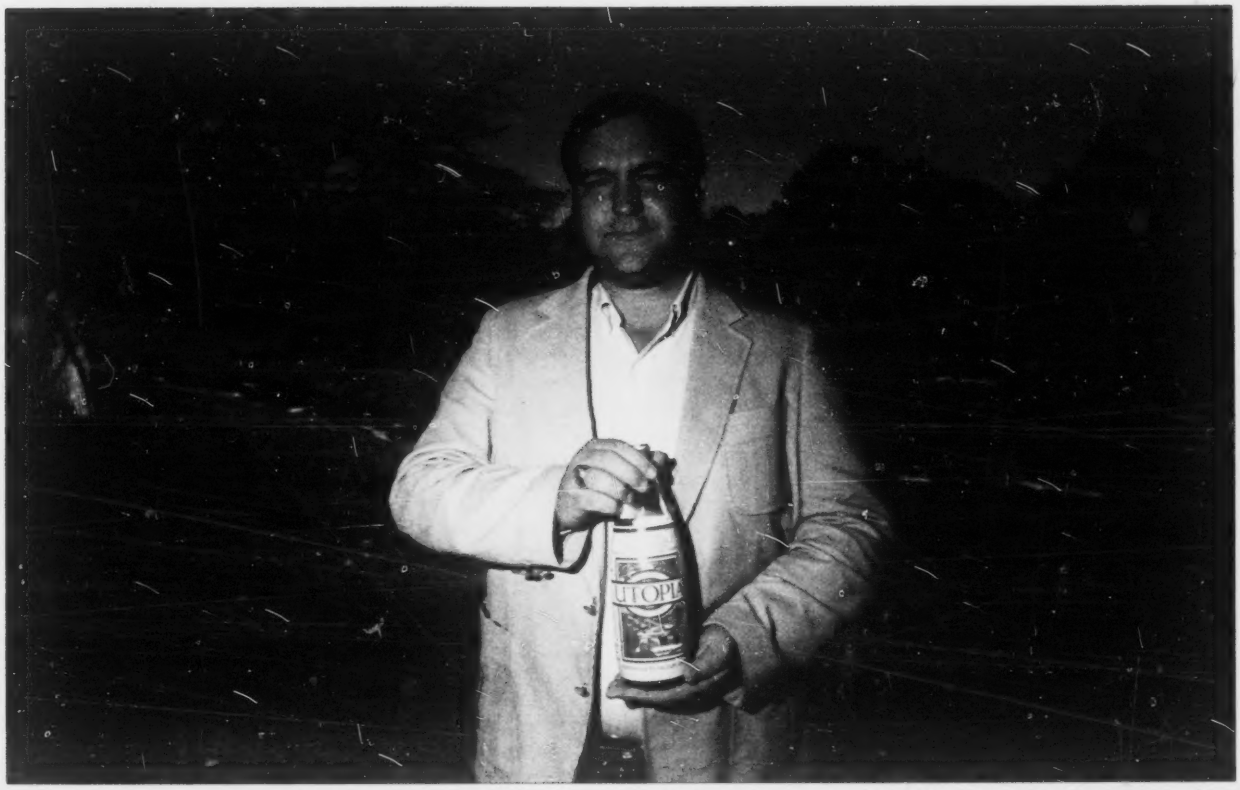
In any other state, it might never have come to this sort of shoot-out between the two men. But this was Texas, after all. Texas has always bred its men stubborn.

They squared off in the supermarket aisles of the boom towns of the old Southwest. One was a city kid up from the streets, brash and feisty, a shameless self-promoter who in his ads had promised "to kick Perrier in the derrier" when he introduced Artesia Sparkling Mineral Water in 1980. His challenger was a soft-spoken country boy from the hills, a fourth generation Texan who hoped to save the family ranch by selling the water he used to dip from his daddy's spring. As a pair of Texas archetypes, they might have stepped out of the pages of some potboiling saga of sweat and dust and family feuds.

Their disagreement was nothing much more than a public spitting contest waged through the columns of the local press. But by the fall of 1985, it had escalated into a full-blown legal brawl. The charges included copyright infringement, unfair competition, fraudulent advertising, and violations of federal racketeering statutes. At issue, really, was nothing more than bragging rights: which man could claim that his was the more genuine of the homegrown Texas waters.

Even today, there are people in San Antonio who think Rick Scoville and Ron Bownds a bit squirrelly, who wonder if this water feud of theirs has gone too far. On the other hand, water has always been a precious commodity in these parts. In the past century, it was sustenance for thirsty cattle and hard-driving cattlemen who made the yearly trek north to Abilene. Today, it is a pricey designer drink. Water, in fact, is now big business in Texas and in every other state, the fastest-growing beverage on supermarket shelves. And with profit margins ranging to 25%, neither Scoville nor Bownds was eager to relinquish his claim.

San Antonio boasts that it's the most entrepreneurial of American cities, and the story of Rick Scoville and Artesia Waters would be instantly recognizable to any student of the entrepre-



. . . UNTIL RON BOWNDS *discovered he could out-Texas Scoville with Utopia Sparkling Water from the family spread.*

neurial revival. Scoville had been transplanted at age five from West Hartford, Conn., to Kansas City, Mo., and then San Antonio, where he grew up a scrappy, red-headed Anglo attending working-class Mexican-American schools. By the third grade, Scoville had a newspaper route and an egg route, and he had cornered the market on painting fluorescent house numbers on the curbs of his neighborhood's streets. An erratic student, Scoville flunked out of the University of Houston and served a tour of duty in Vietnam before returning to complete his degree. Launched into the corporate world at H. B. Fuller Co., a manufacturer of industrial adhesives, he rose quickly to become one of the company's top 10 salesmen. And just as quickly, he found himself very bored.

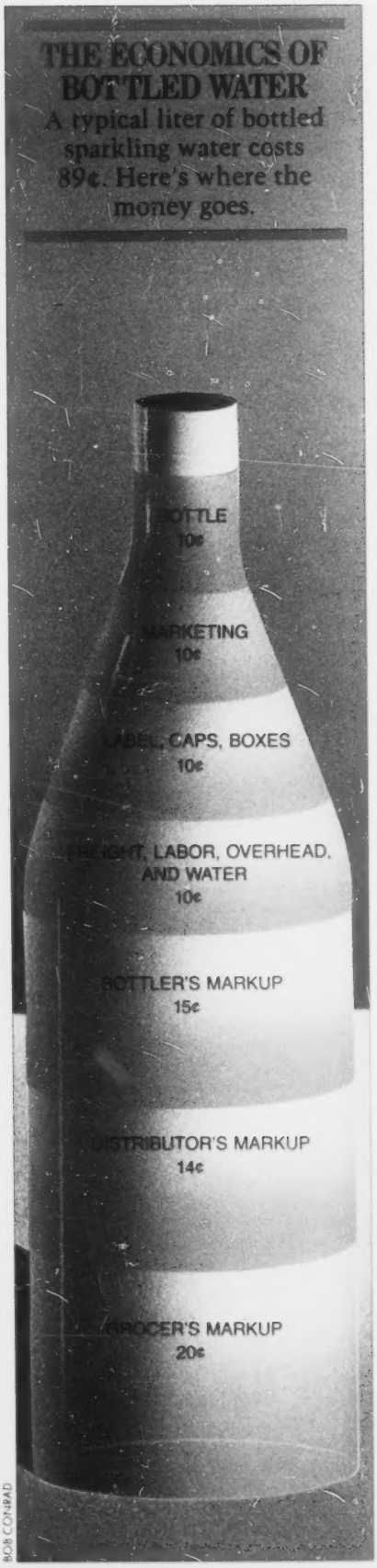
Inspiration came in 1979, while Scoville was cooling his heels waiting to make yet another sales pitch. Picking up a magazine, he read about Perrier's dramatic rise in the mineral-water business in the United States. He didn't know much about water, really, except that the water in San Antonio, purified by its 176-mile journey over the limestone of the mineral-rich Edwards Aquifer, tasted pretty good to him. He had seen the health-conscious crowds at his exercise club. He had heard the refrains of club-soda-with-a-twist at his favorite bars. If Perrier could make money shipping bottled water all the way from France, Scoville figured he could make *beaucoup d'argent* right at home.

The initial tests bore out his hunch: the waters of the Edwards Aquifer were lower in sodium and higher in magnesium than Perrier's. With $25,000 borrowed from a Houston bank, he set up shop in an old Pic-A-Pop Bottling plant in San Antonio, just off the freeway. There, he dug a well and began pumping. Since Perrier then came in three different size bottles ($6^1/_2$ ounce, 11 ounce, and 23 ounce), Scoville put his in Texas-size containers (7 ounce, 23 ounce, and 32 ounce). More to the point, he set his prices strategically below the foreign imports. And in contrast to Perrier's understated green bottles, Scoville's new amber bottles featured a white and blue waterfall on the label, topped proudly with a Texas Lone Star. Say *au revoir*, Perrier, say howdy, Artesia.

At times, Scoville sounds nostalgic for the rough and tumble of those early days of 1980. Unable to find distributors, he sold his water himself from the back of his van, "a bit like an old-time medicine salesman." To convince bar owners to try his product, he would cart in samples of Perrier, Artesia, and plain club soda to run blind taste tests in such cities as Dallas and Houston. And in supermarkets, where grocery managers would line up 10 rows (or "fronts," as they are called) of Perrier next to 2 of Artesia—in a very real sense dictating consumer preference—Scoville would quietly walk down the aisles and rearrange the lineup when the managers weren't looking.

That first year, Scoville lost money: with only $112,000 in sales, his volume was not enough to cover overhead and pay for a modest advertising campaign on billboards and radio. So he tried another marketing strategy. Rather than rearranging bottles on supermarket shelves, he began offering premiums to retailers that would give his product prominence: build a small display and win a satin jacket; build a large display and win a pool umbrella. And instead of paid advertising, he began to test the potential of free advertising—public relations—by pitching himself to the Texas media as the patriotic underdog, the American David challenging the French Goliath. Why send dollars abroad, he would ask, when you can have "a star-spangled, sparkling mineral water from deep in the heart of the Texas hill country."

The media found him irresistible. And not just the local media, either. For remember, this was the era of Texas Chic, of John Travolta and Gilley's and all that. Furthermore, here was a family business worthy of the name: Scoville's 64-year-old father, Bob, kept the production line clanking, his mother, Jeanne, also 64,



BOB CONRAD

served as customer-service representative, and his sister-in-law Lenetta Scoville ran the office. *The Wall Street Journal*, *Texas Monthly*, *Beverage World*, and *Beverage Industry*—everybody wanted a piece of the story. And each time an article appeared, he'd make a copy and send it around to the next batch of potential interviewers.

By early 1985, Scoville had accumulated a media package as thick as the San Antonio white pages—and sales figures to match. Revenues were approaching $3 million and were expected to double the following year, with profits holding from 10% to 15% of sales. By now, his was the top-selling sparkling water in Texas, bigger even than Perrier, with distribution that spread to New Mexico, Florida, Oklahoma, Louisiana, and Georgia. INC. listed Artesia 95th on its 1985 list of the 500 fastest-growing privately held companies in America.

To many in San Antonio, it now looked as if Rick Scoville had made it. There was the custom-modified Porsche. The gold gleaming from wrist and neck. The narrow pink tie set off against the pleated white shirt, worn open over his chest. Unlike some entrepreneurs, Scoville never intended to grow old with his creation. His hope had always been to grow a company and sell out, while he was still young enough to boogie through the night under Houston's bright lights. Now, as his fortieth birthday rolled around, the dream looked within his grasp.

But that was before Ron Bownds came along.

Rick Scoville admits he overreacted to the challenge—it's the redhead in him, he says. "I'm the James Dean of the bottled-water business. I live in the fast lane."

He was probably behind the wheel of his Porsche when he first heard the radio ads last summer for something called Utopia Sparkling Water, from "deep in the heart of the Texas hill country." And before long, billboards along the freeway were picturing the new product with a pretty blue waterfall right there on the label. The advertising appealed to Texas pride, and stressed purity and health: tests showed that Utopia Sparkling Water had less sodium and more magnesium than any of its competitors.

To Rick Scoville, it was pretty clear that somebody was trying to do to him what he had spent six years doing to Perrier. It was a "me-too" copy, as far as he was concerned, and he was riled. But up in the tiny town of Utopia, population 350, Ron Bownds, the creator of Utopia Sparkling Water, was telling reporters that Scoville had it all wrong. "I didn't start the company with any kind of marketing strategy. I just thought people would enjoy a water from Utopia."

If Ron Bownds had not started out with a marketing strategy, he discovered one quickly enough. And his well-orchestrated campaign to out-Texas the original Texas water company became something of a press agent's dream. Bownds was a natural for the role, what with his muddy cowboy boots, silver belt buckle, and a wad of smokeless tobacco always wedged in his cheek. People in San Antonio would see him driving through town behind the wheel of a four-wheel-drive wagon, with a blue plastic spittoon mounted on the dash. A public relations agency was hired to stir up some attention, and journalists interested in the story would be invited to Utopia to eat chicken-fried steak in the local café. They'd hear Bownds recount the tales of his great-grandfather's covered-wagon trek to the Sabinal Canyon River Valley, or his own stint as deputy sheriff in nearby Bandera, the "cowboy capital of the world." On the way to see the spring, Bownds might point out a deer grazing in the oat fields. Then he'd show the reporters his source, bubbling up cool and clear, a constant 68 degrees, spilling over into a perch-filled pool—"the old fishin' hole."

Bottling water from the family spring had not always been Bownds's ambition. At an early age he realized the family's 600 acres could no longer support a working ranch. And so, like countless Texans before him, he set out in search of oil—in his case, as the senior Gulf Coast petroleum geologist for a private independent driller. Then, in 1983, the company wanted to transfer Bownds from San Antonio back to Houston. Bownds had always hated Houston for lots of reasons, including the drinking water. And he was loathe to give up the family ranch. Backed by $150,000 in savings, Bownds decided to "switch natural resources" and went into water, bottling noncarbonated spring water from the family spread for homes and offices in San Antonio.

It was every bit as humble a beginning as Rick Scoville's. Bownds and two employees worked from a makeshift plant behind his mother's house. "God-made water" he called it, but even with the Deity behind his company, Hill Country Spring Water of Texas Inc., profits were limited by low margins and relatively high shipping costs. He needed something more lucrative. And, down in San Antonio, Rick Scoville was pointing the way.

Utopia Sparkling Water began appearing in the middle of the hot San Antonio summer of 1985, along with a strong advertising campaign. It wasn't long before the challenge to Scoville's Artesia spilled over into the columns of Texas newspapers. "Our water is from a place called Utopia. It's spring water. That has some mystique," Bownds boasted to *Austin American-Statesman*, in an article headlined "Water War Heats Up." Then, referring to the competition, Bownds said, "His

water is well water. There's only so much you can say about a well. . . . I'm not knocking it, but it's not much different than San Antonio drinking water."

"Utopia is just a very weak copy of Artesia," Scoville snapped. "Our product has a real clean, crisp taste. I find that Utopia has a bitter aftertaste. Maybe that's because he hauls his water to a bottling place where they bottle all kinds of soft drinks."

The next day, Scoville had his lawyer send a letter to Utopia, accusing it of infringement of Artesia's copyright, and threatening legal action. It was a sound strategy, and one that, in hindsight, Scoville should have stuck with. But that was hardly his style: he had a few letters to write of his own. He wrote to people like Lenwood L. Scholtz, of the Texas Department of Health, and Jim Mattox, the state's attorney general, charging that Utopia had lied when it claimed to be "natural and pure sparkling"; as with every other sparkling water, carbon dioxide was added during bottling. To the largest nightclub owner in Texas Scoville wrote, "Mr. Bownds has misrepresented his product. . . . I feel your customers should not be duped, nor should you!" To restaurateurs and merchants he insisted that Utopia was worse than a copycat: it was a hazard to the consumer because of the possible pollutants on the surface of the spring. KTFM, a local radio station, and Rollins Outdoor Advertising Inc., the company responsible for Utopia's billboards, received letters putting them on notice that Scoville planned to seek "legal remedies" against Utopia; he demanded that they kill the spots and tear down the signs. "Please keep me posted," he wrote the state's food brokers, "so we can *bury* this product!" To many, Scoville seemed like a man possessed.

Utopia's sales had started strong: in the first week, H. E. B. Food Stores, a large food chain in Texas, sold 10 times more than they had projected. But by the end of the month, Bownds was finding that he was not expanding as fast as he had planned. There was nothing he could put his finger on. It was just that food brokers now seemed hesitant to return his telephone calls, and restaurants that had initially agreed to carry his water suddenly backed out.

He discovered the problem soon enough, when the general manager called from KTFM. The radio station had just received the letter from Scoville. "I had expected competition," Bownds remembers. "I had expected the big boys to outspend me 200 to one. But those letters were beyond what I expected.

"I just wanted to be left alone. But the best way to rile me up is to attack my livelihood. It's in my blood to be feisty. It's a Texas tradition."

His lawsuit was filed late in August in Texas District Court. In a 16-page complaint, Bownds outlined Scoville's activities, including the letters and comments to the press. Bownds charged that Scoville's comments "were false, were known . . . to be false, and were made with the malicious intent of destroying goodwill in [Utopia's] products, slandering [Utopia], and unfairly compromising [Utopia's] position in the marketplace." The letters, he said, were "a systematic program of interfering with the existing and prospective contractual or business relationships." Furthermore, by using the mails to interfere with interstate commerce, Bownds accused Scoville of violating the Racketeer Influenced and Corrupt Organizations Act. Bownds asked the court to enjoin Scoville from continuing with his campaign, and to award him actual and punitive damages.

THE LOCALS WERE SO BUSY BATTLING EACH OTHER *that they lost sight of the real competition.*

Scoville met the challenge with bluster, telling the local papers he had his own plans for a countersuit. And yet, despite the failure of Utopia to gain more than a toehold in the local market, the situation seemed to be slipping from Scoville's control. His letters had left bad feelings within the business community. "I just hate to see that kind of conflict," complained George Farias, the bottled-water buyer for San Antonio's Sun Harvest Farms supermarket chain. "We're disgusted," was how J. R. McIntyre, the general manager of Rollins Outdoor Advertising, summed up the reaction. From Utopia, Bownds continued to charm the local press, which took a keen interest in the story, while Scoville stayed hunkered in his bunker. In conversations with several local reporters, Scoville seemed increasingly hostile and strident. "I was used to being the underdog," he explained. "We had played on the theme of the underdog versus number one heavily. Now we were number one ourselves." Being the overdog required a different strategy. And Scoville never discovered one.

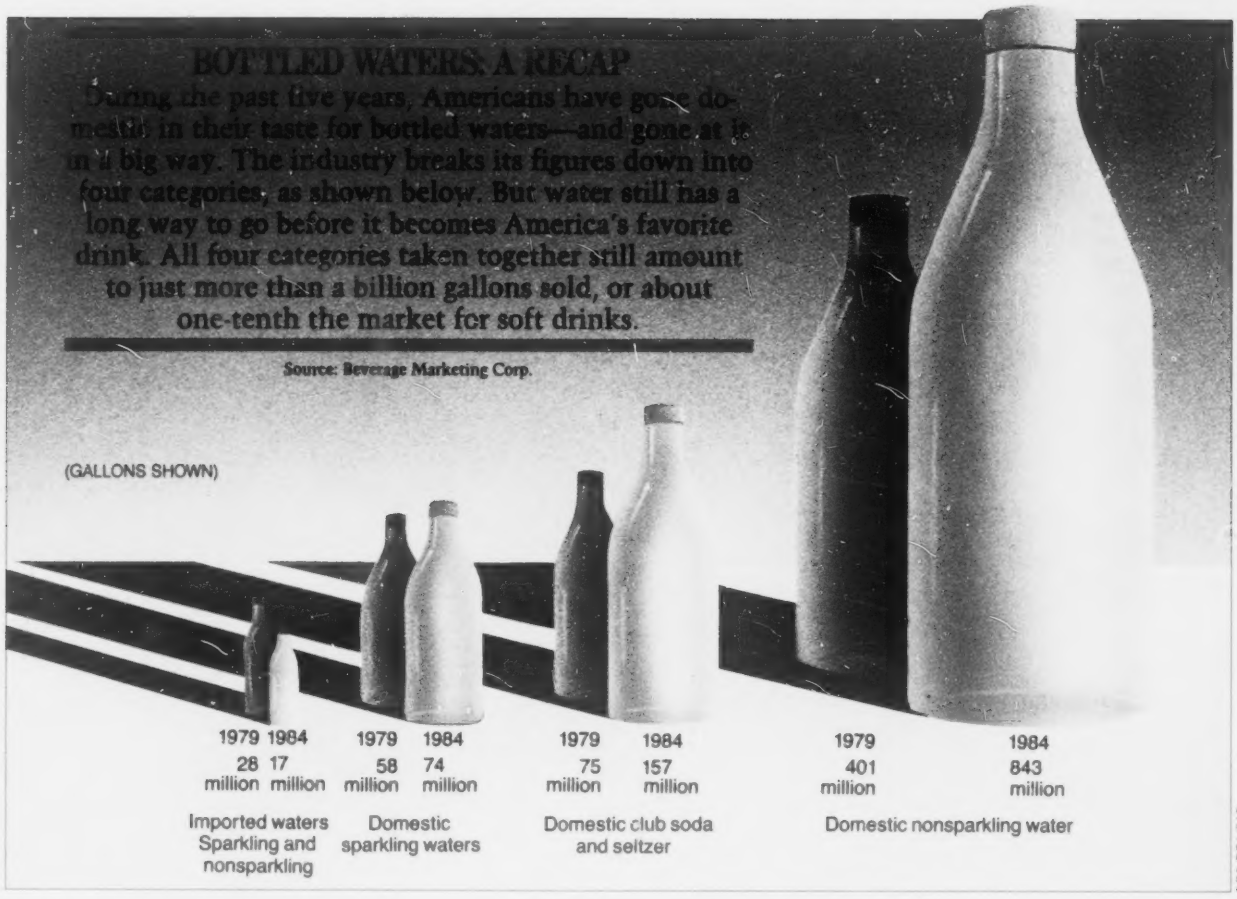
Up in Greenwich, Conn., Ron Davis might have been excused if he'd allowed himself to gloat. For years, Rick Scoville had been taking potshots at Perrier. Now Artesia's water wizard was getting a taste of his own medicine. Scoville had written Davis, as president of the Perrier Group of America, looking for an ally in his latest crusade against Utopia. But as president of the International Bottled Water Association, the Perrier executive found it more diplomatic to take the high ground.

"It's ironic that two Texas people compete," he mused. "It's foolish. I think they would be a lot bigger a lot faster if they had a focus that was bigger."

To Davis, that bigger focus means such soft-drink giants as The Coca-Cola Co. and PepsiCo., at whose expense he expects the bottled-water market to grow to a $4-billion-a-year industry by the year 2000. And to meet the challenge, Davis has increased Perrier's already sizable budget for promotion and advertising, and introduced three new flavors (orange, lemon, and lime). Perrier had also become a regional bottler in its own right, buying up such local brands as Poland Springs, in New England; Calistoga Mineral Water, in California; and Oasis Bottled Water, in Texas. The regionals would allow Perrier to expand its share of the water market by recapturing consumers who preferred to buy American. It would also allow the company to control an increasing number of the "fronts" on the all-important supermarket shelves.

It is just such pressure from Perrier, in fact, that finally forced Rick Scoville and Ron Bownds to call a halt to their feud. The terms of the agreement, reached last November, are confidential, and both parties are pledged not to talk about each other, or their dispute.

In a sense, they had no choice. By most estimates, the next two to five years will see a major consolidation in the water business, from which only a handful of players will survive. After that, according to Hank Forrest, director of sales and mar-


BOTTLED WATERS: A RECAP
During the past five years, Americans have gone domestic in their taste for bottled waters—and gone at it in a big way. The industry breaks its figures down into four categories, as shown below. But water still has a long way to go before it becomes America's favorite drink. All four categories taken together still amount to just more than a billion gallons sold, or about one-tenth the market for soft drinks.
Source: Beverage Marketing Corp.
(GALLONS SHOWN)
1979 1984
28 million 17 million
Imported waters Sparkling and nonsparkling
1979 1984
58 million 74 million
Domestic sparkling waters
1979 1984
75 million 157 million
Domestic club soda and seltzer
1979 1984
401 million 843 million
Domestic nonsparkling water
BOB CONRAD

keting for Utopia, the industry will be left to national companies with enough money to support national television advertising. Perrier will be one, of course. Anheuser-Busch Beverage Group Inc., which just bought New York–based Saratoga Springs Co.'s Sparkling Mineral Waters, may well be another. And the soft-drink companies might jump in too—certainly it would be less risky than switching formulas for a sliver of the cutthroat cola market.

Ron Bownds hopes Utopia will be among the national brands that survive. Since he filed his suit last summer, sales have been growing by a third or more each month, and distribution has already spread to Arkansas, Oklahoma, Louisiana, and California. Within a few months, Utopia will introduce orange, lemon, lime, and cherry flavors, and offer plastic containers for vending machines and airlines. A new half-million-dollar plant is under construction to bottle the expanded line. And to distribute it, Bownds looks to shift from food brokers, who bring everything from soup to nuts to stores once a week, to beer distributors, who make more frequent deliveries and specialize only in beverages. The Anheuser-Busch distributor in Yonkers, N.Y., has already taken on the Utopia line.

In fact, if things go according to plan, Ron Bownds expects to be shipping Utopia overseas before too long, perhaps starting with Perrier's home turf in France. "Wouldn't that be something," he marvels in his affecting Texas drawl, "to find Utopia on the Champs Elysées." You can tell this man is on a roll. Hardly a day goes by that Bownds doesn't get an offer to sell the company, or a few feelers or inquiries from investors. One promoter has even written hoping to turn Utopia into an upscale health spa.

Bownds says he doesn't worry much about Scoville anymore, although Utopia is still only about one-third the size of Artesia. He says he never wanted a feud in the first place, but once it started, he figured there was no way he could lose. Scoville had a good story to tell with his Artesia versus Perrier, but Bownds had a more powerful myth working in his favor. In Texas, there could be nothing so appealing as a country boy fighting to keep the family spread.

Down in San Antonio, Rick Scoville now understands the logic of all that. He sees more clearly his mistakes. It was bad enough that he had his white hat knocked off in public, that he allowed himself to get kicked around in the press. But he also knows that it could have been worse—much worse—if Bownds's suit had ever gone to trial.

Not that Scoville has any intention of letting Utopia walk away with the Texas water business. Like his competitor, he is charting a new course. After Bownds began new plant construction in Utopia, Scoville announced that he, too, would be building a new plant and introducing new flavors. And a new advertising campaign is in the works—something along the lines of "All waters are not created equal." The way Scoville figures it, his Artesia was the first local water, and that should count for something. And he's still the biggest, at least in Texas.

There is the impression, however, that Rick Scoville no longer has much zest for the battle. "It's getting to be a very dirty business, the water business," he complains. Scoville talks wistfully of selling out, as he had always planned. He's written to both Philip Morris Inc. and General Foods Corp., but so far there has been no interest.

For now, the streets of San Antonio are calm. But it would not take much to rekindle the feud between Rick Scoville and Ron Bownds. "If the agreement is broken, we'll go back to open warfare," promises Scoville, somewhat ominously. Bownds's reaction is customarily sly. "What else can you expect from someone from Connecticut?" he asks, smiling. In Texas, that's a question that demands a response. □

NOTE

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